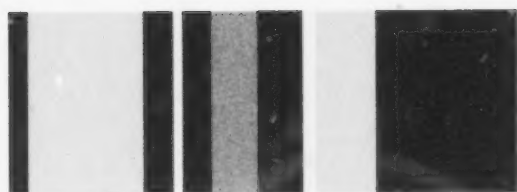


2006-2007 Budget

Budget Speech

Québec 





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Finances

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ISBN 2-551-22863-8

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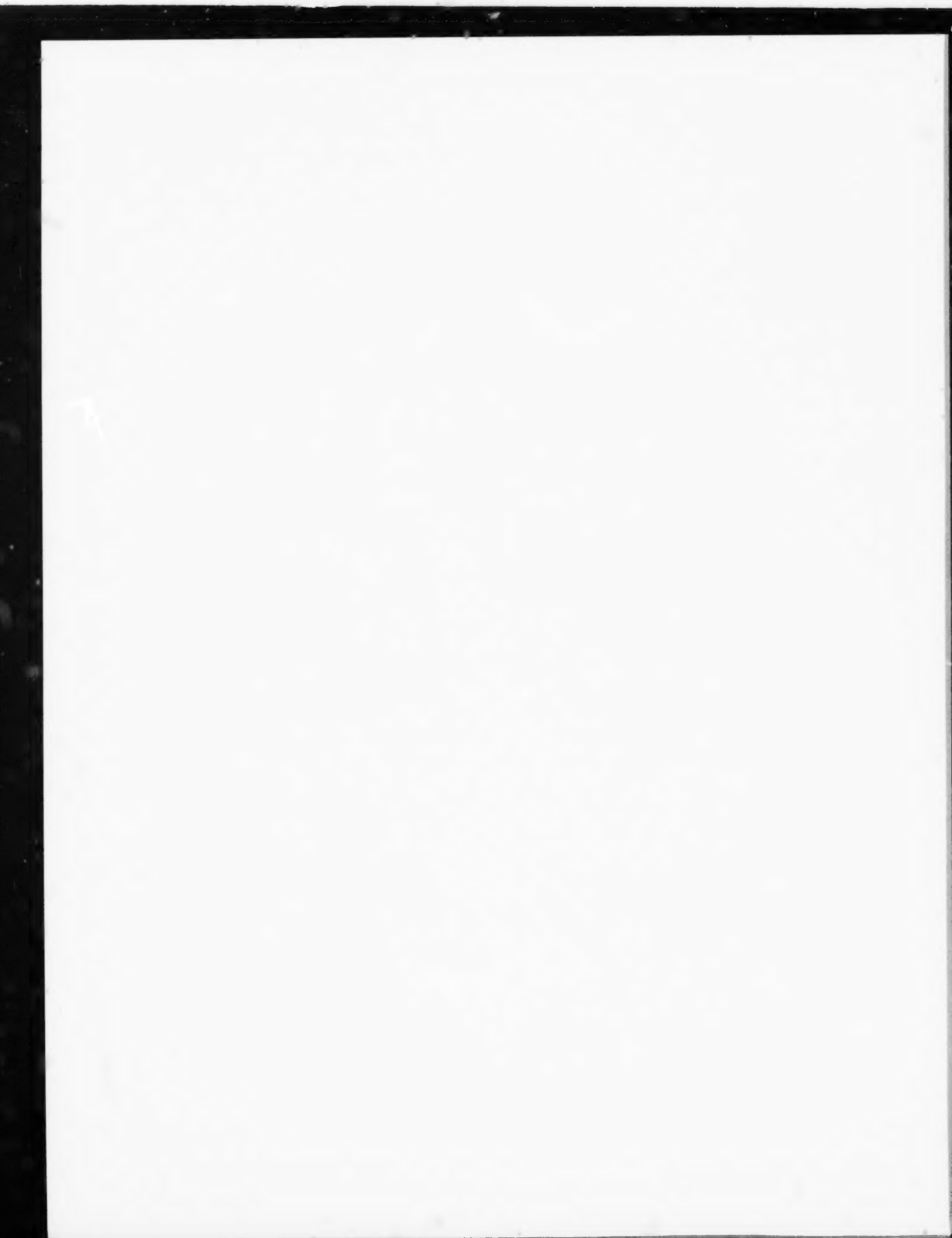
Bibliothèque nationale du Québec, 2006

Publication date: March 2006

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Shaping the Québec of tomorrow today

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Introduction: Assuming our responsibilities toward future generations

Mr. President:

In the past three years, our government has striven to modernize Québec. Today, Québec is in a better position to meet the public finance challenge and deal with the aging population. Moreover, the Québec economy is in a better position to support the stiffer competition from emerging economies.

We have seen to Québec's social and economic advancement.

In the past three years, we have aligned the resources of the State with the priorities of Quebecers. We have redressed our health care system and reinvested in education. We have considerably increased assistance for families. We have reduced taxes.

In the past three years, we have divided economic development responsibilities between the State and businesses along new lines. We have redefined the mandates of government corporations with an economic mission, built the momentum in venture capital and rekindled the desire to work.

We have acted in accordance with the priorities of Quebecers. We have been disciplined and rigorous.

Today, my colleague, the Chair of the Conseil du trésor, tabled the Estimates for all Québec government departments.

Thanks to her determination and the concerted efforts of all my Cabinet colleagues, spending growth will be limited to 3.9% in 2006-2007, that is, below the increase in government revenue. We have attained that objective while assuming the pay increases of government employees and creating a provision for pay equity. We have put our fiscal house in order.

Because of the work accomplished, we can now go further. Today, we can make a commitment to future generations.

I am tabling today a responsible budget, a budget with a vision, built on four main objectives:

- ongoing improvement of our health and social services system and our education system;
- wealth creation in a sustainable development context;
- infrastructure development and repair;
- debt burden reduction to ensure greater inter-generational equity.

Mr. President, through the series of actions announced in the budget I am tabling today, our government affirms its vision for a better Québec: a responsible Québec on the road to greater prosperity.

Section I: Investing in our future

A responsible Québec is a Québec that honours the choices we have made and that invests in our common values: health, education, families, youth and culture.

Health: always our top priority

We were elected with a mandate to redress our health care system. Three years later, we have made real progress, confirmed by outside observers.

- We have improved the organization of services.
- We have reduced waiting lists, and begun relieving congestion in emergency rooms.
- We have drawn up a mental health action plan.
- We have prepared an action plan regarding services for seniors losing their autonomy.
- We have added 89 new family medicine groups and 12 others are in the process of being accredited.
- We have ensured a better distribution of specialists and general practitioners.
- We have created 12 network clinics to take into account the specificities of the Montréal area.
- We have set up 95 health and social services centres.
- We have created two regional centres for medical training—one in the Mauricie region and the other in the Saguenay–Lac-Saint-Jean region.
- Lastly, we have made noteworthy improvements in access to health care in the areas of cataract surgery, cardiac surgery and radiation oncology.

Quebecers can be proud of the ground covered. However, our aging population and technological development are putting considerable pressure on our health care system.

**\$1.3 billion more for
health care**

The new funding for health and social services is in line with our commitment to invest in health. Again this year, almost two thirds of the increase in government spending will go to health. That represents an additional \$1.3 billion, an increase of 6.3%.

All told, since we came to power, we have raised the health budget to \$22.1 billion, \$4.2 billion more than under the previous government.

The new resources allocated for the coming year will:

- improve access to surgery and emergency room protocol;
- step up the fight against cancer;
- enable further implementation of the action plans regarding seniors and mental health;
- provide better support for young people in difficulty and better help for women who are victims of violence; and
- lastly, increase prevention and protection efforts.

The Minister of Health and Social Services and the Minister for Youth Protection and Rehabilitation will unveil the details of the new measures in the days to come.

In addition, we are going to make new capital investments of \$485 million. Including the investments announced in the last budget speech, our government has invested over \$2 billion in health care.

I am announcing today that the new investments will be used to fund, among other things:

- leading-edge medical equipment;
- the addition of new beds in long-term care centres;
- the action plan for seniors losing their autonomy;
- radiation oncology and cardiology facilities.

For the three major hospital projects in Montréal, we will soon have a precise evaluation of the costs involved and proposals for the best means of ensuring implementation of the projects.

In the wake of the Ménard report, we are continuing to seek solutions for long-term health funding. We invite the public to take part in the consultations to be held in April.

***Maintenance of a public
health care system with
guaranteed access***

The response proposed by our government further to the Chaoulli decision reaffirms our commitment to an accessible public health care system.

Mr. President, this responsibility that drives us is reflected in our values of compassion and solidarity. With this in mind, we want our parents and grandparents to live in dignity.

In fact, the vast majority of seniors are active and healthy. They contribute much to our society, be it through their social, civic or professional involvement.

In the current demographic context, recognizing the contribution of seniors and introducing means to enable them to remain active are important issues for this government.

We have never overlooked the needs of seniors who, because of their fragile health, need assistance even for basic everyday tasks.

In the last two budgets, we have taken very significant steps in regard to seniors' health. In particular:

- we invested massively in health care services for them;
- we introduced free medication for seniors who receive the maximum guaranteed income supplement;
- we brought in a tax credit for natural caregivers.

In addition, last year, we increased support for persons with disabilities. This year, we are going to enhance the tax deduction to improve building accessibility for people with a mobility impairment.

Facilitating home support

In addition, we are enhancing the tax credit for home support for elderly persons.

\$159 million to enable seniors to remain at home

I am announcing that we are allocating \$159 million in financial assistance for care and services provided to seniors who wish to remain in their living environment. This injection of an additional \$54 million will enable us to:

- broaden the services eligible for the tax credit to include nursing services for seniors living in a seniors' residence or their own home who need special care;
- raise the rate of the tax credit for home-support services from 23% to 25%;
- simplify the procedure for obtaining the tax credit, which will enable 290 000 seniors—180 000 more than at present—to remain at home longer;
- raise the limit on the expenses eligible for the tax credit from \$12 000 to \$15 000 to take into account people with higher expenses.

The details of these measures are given in the documents *Additional Information on the Budgetary Measures* and *The Budget Plan*, which are an integral part of this speech.

Mr. President, we have reversed the trend in health care and we will continue to implement concrete, sustainable solutions to remedy the mistakes of the past.

Education: the future of our children

In our competitive world, the societies destined to succeed are those that cultivate knowledge. Education is the surest path to prosperity. It is also the best means of reducing poverty.

Since we took office in 2003, we have taken numerous steps. For example:

- we brought in the Homework Assistance program;
- we introduced the Healthy, Fit Schools program;
- we allocated an extra \$380 million to universities so that they can accept more students.

\$660 million more for education

This year, the government will inject another \$660 million into the education system, raising the education budget by 5.4% to \$13 billion. This means that, since 2003, we will have invested \$1.6 billion more in education.

With the additional resources for 2006-2007:

- we will invest another \$100 million to better assist students with social maladjustments or learning disabilities, which could enable 1 800 professionals to be hired to assist teachers;
- we will add one and a half hours of teaching time a week at the elementary level as of this fall;
- English will be taught as of Grade 1.

In addition, we will continue to invest in upgrading our schools and in making better equipment available to our young people. Last year, I announced investments of \$900 million to that end.

Today I am announcing additional funds of almost \$300 million. In particular, these new investments will make it possible to finance:

- the construction of the John Molson building at Concordia University;
- the updating of existing technical programs, and the creation of new ones, at the college level;

- the addition of information and communications technology equipment;
- the conversion of science laboratories in the second cycle of secondary school.

Supporting our young people in the pursuit of their ambitions

Mr. President, we have a responsibility to support the ambitions and dreams of our young people.

***Youth strategy:
\$110 million over three
years***

The Premier will soon unveil the new youth strategy, which will have a \$110-million budget over three years. As of 2006-2007, the strategy provides for measures totalling almost \$30 million so that each young person may follow his or her path, whether it be at school, in a training project, at work or through community involvement.

On the heels of this strategy, certain measures will be renewed and enhanced.

***Permanent renewal of the
tax credit for on-the-job
training periods: \$25 million
a year***

For Québec youth, I am announcing that the tax credit for on-the-job training periods, with its annual funding of \$25 million, will be renewed permanently.

What we want, Mr. President, is to encourage young people to work resolutely toward achieving success.

Sports facilities accessible to everyone

In the past three years, the government has made the modernization of infrastructure in Québec one of its priorities. We are investing in our highways, our hospitals and our schools. In the wake of the Perreault Report on healthy lifestyle habits in young people, the time has come to invest as well in modernizing and developing sports facilities.

We know that access to modern, safe facilities enables young people to be more active and develop healthily. It also enables them to push the limits of excellence. Many of us took pride in watching these young Quebecers compete with the best in the world at the Winter Olympic Games in Torino. It is in neighbourhood parks and facilities accessible to everyone that children discover a talent or passion that will make them future champions.

As we know, Quebecers invested heavily in the Montréal Olympic Games of 1976. The full repayment of the Olympic debt in a few months' time represents an ideal opportunity to invest in the development of sport.

***Creation of the Fund for
the Development of Sport
and Physical Activity***

Thus, I am announcing the creation of the Fund for the Development of Sport and Physical Activity. The fund will have an annual budget of \$30 million and will receive a portion of the tobacco tax currently paid into the Special Olympic Fund.

Through the fund, a program to support sports facilities in all regions of Québec will be set up.

The details of this program will be announced shortly by my colleague, the Minister of Education, Recreation and Sports.

I can assure you, Mr. President, that this special fund will have a substantial multiplier effect, by supporting projects and facilities such as:

- the construction of pools and soccer or football fields;
- gymnasiums, athletic tracks and sports centres.

With the participation of our partners, the fund will generate total investments of \$500 million over the next five years.

The federal government will be invited to participate in this program, the projects of which will be launched by sports federations, municipalities and the private sector.

Moreover, in the wake of the report of the task force on hosting international sporting events in Québec, I am announcing that the new fund will provide for \$6 million a year to be set aside to support Québec cities in their bids to host major sporting events like the Panamerican Games, the Jeux de la Francophonie or the various Canadian championships, as well as the organization of such events.

Developing our culture and heritage

Mr. President, we have an inestimably rich culture in Québec. We are going to invest more in cultural and heritage facilities.

Creation of the Québec Cultural Heritage Fund

I am therefore announcing the creation of the Québec Cultural Heritage Fund, which will receive annual funding of \$10 million and will also receive a portion of the tobacco tax currently paid into the Special Olympic Fund. The new fund will finance the preservation and development of the most significant elements of our heritage.

The details of this program will be unveiled by my colleague, the Minister of Culture and Communications.

Over the next five years, the fund will generate \$200 million in investments, with the contribution of its future partners.

The government will also make \$58 million in funding available for culture to implement capital investment projects such as:

- the development of municipal libraries;
- the enhancement of religious heritage.

\$5 million in 2006-2007 for museums

In addition, the government plans to continue supporting our artists and the various cultural institutions through specific initiatives.

This year again, we are increasing assistance for museums. I am announcing that we will grant museums, which are also important tourist attractions, \$5 million to support their operations.

I am also announcing additional, recurring assistance of \$1 million for schools that provide artistic training in order to prepare the artists of tomorrow.

The government wants to promote our culture. Culture is at the heart of our identity and our international visibility, and is a powerful economic lever. The amounts I have just announced will be augmented by \$3 million in various fiscal measures aimed, in particular, at increasing artists' income-averaging annuity.

The substantial amounts allocated to the cultural sector are evidence of how important a priority this sector is for the government.

Facilitating work-family balance

Our modern life sometimes makes the organization of family life harder. We recognize this reality. We have a responsibility to help families give birth to and raise children.

We have made this a priority. The government has taken a number of concrete steps to facilitate work-family balance.

Mr. President, I am proud today to inform the members of this assembly that we have added over 30 000 daycare spaces in three years. The government, guided by my determined colleague, the Minister of Families, Seniors and the Status of Women, has thus attained the objective of making 200 000 reduced-contribution daycare spaces available to Québec children.

In regard to work-family balance:

- we increased the disposable income of young families through the child assistance measure, under which, again this year, we will pay \$500 million every three months to 850 000 Québec families;
- we introduced the work premium to encourage people with low incomes to remain in the labour market, or to enter it if they are not already working;
- we brought in the Québec Parental Insurance Plan—the most generous in Canada and the only one accessible to self-employed workers—for parents who welcome a new child.

We are continuing on that path with two new measures:

- For parents who need child-care services outside of regular hours, I am announcing the injection of \$3 million to support drop-in daycare. Drop-in daycare services are already provided to close to 12 000 children, and will be able to do still more with the new resources.
- To help parents with school-age children during spring break, I am also announcing that the budget for child-care services offered by schools will be increased by \$4 million a year. Thus, it will be possible to provide the child-care services at a reduced rate during spring break. Furthermore, the cost of such services will be eligible for the tax credit for child-care expenses.

In the name of equity, justice and generosity

Construction and renovation of social housing

Mr. President, our government has ambitions for Québec. Although we are resolutely steering a course toward prosperity, we are also listening to those who need help.

There is still a great need for affordable social housing. And we are meeting it.

\$158 million for social housing

I am announcing a total investment of \$158 million in the construction and renovation of affordable social housing:

- We are going to build 1 400 additional social housing units, thereby raising to 20 000 the total number of new dwellings built since we took office.
- In addition, we are going to invest an extra \$16 million over three years to renovate low-rental housing. Including the contribution of the federal government, this represents an investment of \$45 million.
- Lastly, we are going to allocate another \$29 million to the Société d'habitation du Québec, in order to offset the increase in costs and maintain the current rate of construction.

My colleague, the Minister of Municipal Affairs and Regions, will unveil all of the details of these investments.

Community action

We want to build a Québec society based on the values of equity, justice and solidarity. It is our responsibility to involve as many people as possible in the success of Québec.

With that in mind, the government devoted \$2.5 billion over five years to fighting poverty and social exclusion.

Social economy businesses and cooperatives play an important role in this regard, because they offer services such as housekeeping, meals and respite at affordable prices.

**\$10 million for the
Fonds d'investissement
en économie sociale**

I am therefore proud to announce a \$10-million contribution over five years to the creation, with our partners, of a \$58-million investment fund for collectively owned enterprises. Fondation and the Fonds de solidarité des travailleurs du Québec will contribute \$20 million to the fund, and the federal government, \$28 million.

The fund is in addition to existing programs. This concrete step recognizes the contribution of social economy businesses and cooperatives.

As we know, the government also supports the activities of community organizations through an annual contribution of \$600 million. These organizations play a key role in our society by offering the public support and services.

Improved legal services

In the area of justice, we have raised the eligibility thresholds for legal aid. When fully implemented, more than 50 000 Quebecers will therefore have access to the justice system and be able to better defend their rights. These thresholds had been frozen for 24 years for persons living alone. It is a concrete step in the fight against poverty.

We also want to bolster the already considerable support for victims of crime, who are vulnerable, and their loved ones. I am therefore announcing that we will invest another \$1.5 million to improve the assistance and services available to these people. The Minister of Justice will announce shortly a reform of the crime victims compensation program.

Encouraging philanthropy

As regards philanthropy, the Québec salutes the willingness to help others shown by many Quebecers. When people decide to make a donation to a health foundation, or to a charity, their gesture has more than a monetary value.

**Increase in the tax
credit for donations
and gifts**

I am therefore announcing an increase in the tax credit from 20% to 24%, for all donation and gifts over \$200, in order to encourage philanthropy in our society.

Mr. President, for three years, we have worked for social progress.

We have made headway in becoming a fairer society that takes better care of its seniors and provides better assistance for parents and their children.

Section II: Targeting sustainable economic development

In the Premier's inaugural address, our government placed wealth creation at the centre of its ambitions. The action we have taken has borne fruit.

Mr. President, the Québec economy is doing well.

- The economy grew 2.2% in 2005, and should expand 2.5% in 2006, which is consistent with the average private sector forecast for growth.
- Export recovery has continued.
- The labour market trend is favourable and Québec posted its lowest unemployment rate since 1975.

This performance is all the more encouraging given today's major economic constraints, such as the higher Canadian dollar, the rise in oil prices, the softwood lumber dispute and growing competition from emerging economies.

This performance demonstrates the merits of the principles of economic development and sustainable development endorsed by our government.

Forests—at the heart of sustainable development

Quebecers have an environmental awareness that bodes well for the future. We believe that we can do more to leave future generations an environment that will foster prosperity. That is why we are taking action today in regard to forest renewal, agriculture and greenhouse gas reduction.

For responsible forest management

Our forests are a remarkable source of wealth. But they are a resource in urgent need of renewal.

The report of the commission for the study of public forest management in Québec (Coulombe commission) recommended ways to ensure the sustainability of our forests. The choices the government has made and must still make to attain that objective are demanding.

Several of Québec's regions were built on the forest industry and still rely on it today.

- The forest industry provides more than 80 000 jobs in Québec.
- Nearly 70% of forestry jobs are in the resource regions.

**Financial assistance
totalling \$1.1 billion over
four years for the forest
industry**

- Certain companies are threatened by the current context, and the government decided to respond with energetic measures.

Already in the last budget, I had announced \$167 million in support measures for the forest sector.

To continue to support the workers, regions and forest industry, I am announcing today additional funds of \$925 million over four years, for a total of \$1.1 billion.

To make our forest companies even more competitive, we are going to support them through concrete measures that will, among other things, make the price of fibre more competitive.

- A budget of \$210 million will be allocated to implement silvicultural investment measures and measures to reduce the cost of operations.
- We will invest \$44 million to provide support specifically to forest sector workers, particularly older workers. We are in talks with the federal government for additional amounts.
- For primary wood processing companies, the rate of the capital tax credit on investments in manufacturing and processing equipment will be tripled to 15%.
- A refundable tax credit for the construction of forest access roads and bridges will take effect as of tomorrow, and will enable forest companies to reduce their production costs.
- A \$425-million loan envelope will be made available through Investissement Québec to support and accelerate the modernization of forest companies. Of that amount, \$75 million will be intended specifically for SMEs.
- An income-averaging measure will be introduced for private woodlot owners so that they can defer the taxation of income from the sale of wood.

Our plan for the forest industry also includes measures to secure the supply of raw materials. The details of these budgetary measures will be announced soon by my colleagues, the Minister of Natural Resources and Wildlife, the Minister of Economic Development, Innovation and Export Trade and the Minister of Employment and Social Solidarity.

These initiatives will contribute to assisting the workers, regions and companies while they go through a transition period.

Supporting our farmers

The agriculture sector is also going through a transition period.

- On the one hand, the sector must take action to ensure the integrity of the food chain in the face of new public health risks.
- On the other, farmers must be given investment support to meet sustainable development requirements.

As the bird flu epidemic spreads, the possibility of the disease arriving in Québec cannot be ruled out.

\$79 million to protect public health

I am announcing investments of \$79 million to protect public health, in particular for the construction of new animal disease laboratories and the confinement of reared birds.

My colleague, the Minister of Agriculture, Fisheries and Food, will unveil the details of these investments in the near future.

I am also announcing that pig producers will be able to claim a new, 30% refundable tax credit for the acquisition of manure treatment facilities.

- This tax assistance will help pig producers make the investments required to ensure a healthy environment, thereby fostering a more harmonious cohabitation on the land.

Moreover, we will continue to defend our supply management system, on which a number of our agricultural productions depend, before the World Trade Organization.

Lastly, we are continuing to promote agricultural diversification. Just last year, we implemented a measure for the marketing and distribution of local products and the development of small-scale alcoholic beverage production in Québec.

We are supporting that sector, through an injection of \$3 million. It is a concrete way to support local initiatives and rurality.

Public transit: a choice that contributes to greenhouse gas reduction

Mr. President, climate change is a major sustainable development issue. As you know, transportation alone contributes to almost 40% of greenhouse gas emissions in Québec. To prioritize public transit is to engage in sustainable development.

The benefits of public transit are undeniable. A bus replaces up to 40 cars and emits one-sixth the amount of greenhouse gases.

Car pooling significantly reduces road congestion, traffic jams and road infrastructure expenditures.

It is an intelligent choice, an environmentally responsible choice and the choice of our government.

\$1.5 billion for public transit infrastructure and equipment

I am announcing that \$1.5 billion will be allocated over the next three years to maintain and renew public transit infrastructure and equipment. Priority projects include:

- renovation of Montréal's metro stations and replacement of the metro cars;
- development of a new, northeastern commuter train service in Montréal;
- the establishment of maintenance facilities for the Réseau de transport de la Capitale.

I am announcing two measures to promote public transit use:

- full reimbursement of the fuel tax for public carriers;
- introduction of a tax incentive for businesses that defray all or part of the cost of their employees' transit passes, and non-taxation of the resulting benefit for employees.

Hybrid vehicles have considerable potential for reducing greenhouse gases. To encourage less-polluting technologies, I am announcing that we will grant a refund, of up to \$1 000, of the QST paid on the purchase of the most fuel efficient hybrid vehicles.

I am also announcing the refund of the fuel tax paid on the purchase of biodiesel fuel—another, more environment-friendly source of energy.

My colleague, the Minister of Transport, will soon unveil a public transit policy that will include all of the measures I am announcing today.

Mr. President, sustainable development is the business of every Quebecer. It is the business of the government, which introduces fiscal measures, of businesses, which are encouraged to act on them, and of Quebecers, who are called on to change their habits. Sustainable development is a shared responsibility.

Enhancing the competitiveness of the economy and spurring innovation

Fiscal competitiveness, an unavoidable issue for prosperity

Mr. President, the government is taking action on several fronts to enhance our economic performance. Easing the tax burden of taxpayers remains one of our priorities.

A tax burden that is too heavy slows the economy. It curbs the incentive to work and is an obstacle to investment. It hampers us in competing with our main trading partners to attract or retain the most qualified, dynamic and creative entrepreneurs and workers.

Several initiatives have been taken to ease Quebecers' tax burden. We:

- introduced the child assistance measure;
- introduced the work premium;
- introduced a single tax system; and
- indexed the tax system.

Tax deduction of up to \$1 000 for workers

Last year, we also introduced a new deduction for workers. This year, I am announcing that the deduction will be doubled as of January 1, 2007, and therefore increase from \$500 to \$1 000.

- This will reduce taxpayers' income tax by \$288 million a year.
- A total of 3.2 million workers will be able to claim the deduction.
- With this last measure, we are delivering on another election commitment.

We are further easing Quebecers' tax burden, bringing the relief to \$2.9 billion.

- For a household with two parents and two children and an income of \$35 000 dollars, this represents a tax cut of \$2 539 a year.

We are pursuing our efforts to attain the objective of reducing the tax burden to the Canadian average. In fact, in less than four years, our efforts have enabled us to bridge the gap between the tax burden in Québec and the Canadian average to less than \$1 billion.

Corporate taxation conducive to investment

The State plays a leading role in creating conditions to facilitate and accelerate the launching of economic projects that generate wealth and jobs.

The government's sustainable economic development strategy presented in October 2005 sets forth how the government intends to proceed.

We have already taken concrete steps. The reform of corporate taxation announced in the last budget creates a fiscal environment more conducive to investment.

- As of January 1, 2005, three quarters of Québec businesses no longer pay tax on capital.
- In the last budget, I announced a gradual decrease of more than 50% in the capital tax rate.
- In addition, because of the capital tax credit, businesses that modernize are virtually exempt from paying tax on capital.

We reduced the tax rate of SMEs from 8.9% to 8.5% on January 1, 2006. But we want to do still more to enhance their competitiveness.

I am announcing that we will reduce the SME tax rate again, to 8% as of midnight tonight.

Moreover, we are bringing the tax treatment of dividends into line with that of the federal government announced last fall.

Spurring innovation

In addition, the government intends to further spur innovation, one of the main thrusts of its economic development strategy.

Four challenges have been identified:

- create a genuine culture of innovation in Québec;
- maintain a pool of top-level researchers;
- encourage the private sector to step up its research activities;
- make the transition from research to innovation.

***\$75 million for innovation
and R&D***

To that end, I am announcing \$75 million in assistance over three years for innovation and R&D activities.

In particular, we will:

- capitalize on university research in order to maximize its economic benefits;
- support certain R&D organizations, including Génome Québec and the Institut national d'optique;
- improve R&D incentives for businesses.

These efforts are in line with the recommendations of the Fortier report on the commercialization of public research results in Québec. They ensure the continuity of the government's financial participation to date and will contribute to economic development through the commercialization of our innovations.

My colleague, the Minister of Economic Development, Innovation and Export Trade, will present the details of these investments in the weeks to come.

These measures will contribute to attaining the ambitious target we set for ourselves in the economic development strategy, namely, to devote 3% of Québec's GDP to R&D by 2010.

Moreover, I am announcing that \$20 million will be paid over three years to support Québec's new international policy. In particular, this funding will make it possible to support businesses' international trade efforts and develop trade with emerging economies such as China, India and Brazil.

The details of this policy will be announced by my colleague, the Minister of International Relations and the Minister responsible for La Francophonie.

Venture capital: promising results

Venture capital is a top-notch financial lever for businesses that innovate and break new ground in achieving prosperity. Substantial risk is involved in such investments.

We have gradually changed the State's role in venture capital so as to increase the presence of the private sector, in particular foreign investors.

Today, the government's role consists more in facilitating private investment, rather than in assuming the risks and role of the private sector.

The results show that we were right.

- Venture capital investment has risen for the second consecutive year, growing by 11.7% in 2005. I wish to emphasize that the increase is fully attributable to the private sector.

- Venture capital investment in Québec accounts for 39% of the Canadian total.
- Québec now ranks ninth in venture capital investment among U.S. states and Canadian provinces.

Mr. President, I am presenting a table showing venture capital investment in 2005 for Canadian provinces and U.S. states.

With this budget, we are pursuing our efforts to support venture capital investment.

I am announcing that the annual amount that Capital régional et coopératif Desjardins is authorized to raise will increase from \$100 million to \$150 million. The applicable tax credit will be 35%.

- These funds will subsequently be invested in Québec businesses, particularly in the resource regions and in cooperatives.

This measure will contribute to high-performance companies throughout Québec.

Section III – Pursuing decentralization and regionalization

In the past three years, we have moved Québec forward on the road to decentralization and regionalization. We have taken concrete steps to show our trust in the inhabitants of Québec's regions.

Thus, a new type of governance has been established. The regions and municipalities are our partners and engines of economic, social and cultural development.

Elected officials informed us of their needs. We listened to them. We believe that they must be given the capacity to assume their responsibilities.

A new financial partnership with municipalities

We have worked actively with municipal representatives in the past several months to forge a new financial partnership.

I am announcing that we have just concluded an agreement in principle in this regard with the representatives of all the municipalities in Québec. The agreement includes gradual reimbursement to the municipalities of the sales tax they pay on their purchases of goods and services.

The new partnership is part of a common desire to make sweeping changes in the relations and procedures between the government and municipalities. By its scale and scope, it marks a new era in our relations with elected officials.

I want to thank my colleague, the Minister of Municipal Affairs and Regions, for the leadership that resulted in the conclusion of this agreement.

Supporting regional vitality

In addition, by setting up the regional conferences of elected officers (CREs), we have given elected officials more latitude.

**\$8 million more a year for
CREs**

To continue along this path, I am announcing that our government is augmenting the budgets of the CREs by \$8 million a year.

Our decentralization efforts have already yielded concrete results, such as:

- location of the Chief Forester of Québec in Roberval, in the Saguenay–Lac-Saint-Jean region;
- creation of regional forestry commissions;

- siting of the CSST call centre in Caplan in the Gaspésie region; and
- location of the Québec Parental Insurance Plan customer service centre in Rouyn-Noranda in the Abitibi-Témiscamigue region.

Our government will continue to be the government of the regions, which is why I am announcing today that the head office of the Société québécoise d'exploration minière, a subsidiary of the Société générale de financement, will be relocated to Val-d'Or, in the heart of Québec's mining country. SOQUEM and its partners will continue to invest up to \$8 million a year in mining exploration.

\$3 million more over two years for the geological survey

In addition, to take up the challenge of finding new mineral reserves, I am announcing an additional \$3 million over two years to continue the geological survey. This amount is in addition to the initiative to create a Québec geological exploration office, which will also be located in Val-d'Or.

Moreover, I am announcing that we will maintain and better oversee the tax credits designed to stimulate economic activity in the resource regions. More specifically, we are making changes relative to installation activities.

Mr. President, for young Quebecers who choose to live in the regions, I am also announcing adjustments to the tax credit for new graduates in the resource regions. The credit will henceforward apply to all jobs for new graduates, irrespective of where the employer is located. Changes will also be made to the credit to encourage young people to remain longer in the regions.

Increased funding for FIER and FLIs

To support business start-up and expansion, we made a powerful intervention lever available to the inhabitants of the regions: the regional economic intervention fund (FIER), which complements the local investment fund (FLI).

These two initiatives are part of a risk-sharing approach with the financial partners involved.

- To date, the government has allocated \$126 million to the local investment fund, which is administered by the 120 local development centres in Québec.
- The regional component of the regional economic intervention fund represents more than \$156 million invested in 11 of Québec's 17 regions. FIER-Régions comprises 22 funds and represents a government contribution of two dollars for every dollar invested by the inhabitants of the regions.

***Increase in the FIER and
FLI budgets***

These instruments are so popular that the full amount of the funds set aside has already been allocated, but we are determined to further this trend.

I am therefore announcing additional funding of \$30 million for FIER-Régions. With the private-sector contribution, this represents an extra \$45 million for regional projects.

I am also announcing a \$15-million increase a year for the next three years in the budget of the local investment fund.

Lastly, I am announcing that another \$12.5 million will be devoted to the development of new businesses in the niches of excellence identified in the various regions of Québec.

My colleague, the Minister of Economic Development, Innovation and Export Trade, will announce the details of these commitments in the coming weeks.

In short, this means that, more than ever, the power to make decisions on the economic development and the future of the regions is in the hands of the regions' inhabitants.

Tourism

The tourism industry is an important development engine for the regions. To better support this industry, I am announcing that we will invest more than \$15 million this year, including \$12.5 million more annually in the tourism partnership fund, whose mission is to promote all regions of Québec.

Improved cost-sharing for the Sûreté du Québec

We are going to settle a major matter involving over 1 000 Québec municipalities.

Originally, under the agreed cost-sharing formula for Sûreté du Québec services, the overall bill was paid equally by the government and the municipalities.

Today, given the considerable increase in property value, this formula results in the municipalities' assuming nearly 60% of the cost of Sûreté du Québec services.

In June 2005, the Minister of Public Security set up a panel with the Fédération québécoise des municipalités and the Union des municipalités du Québec to remedy this situation and return to the original spirit of the agreement.

To follow up on the discussions with the municipal associations, I am announcing that the government will gradually raise its contribution to 50% within five years.

To that end, the government will allocate an additional \$112.5 million for the next five years.

The details of this measure will be announced soon by my colleague, the Minister of Public Security.

Tools tailored to large cities

Mr. President, large cities are a driving force behind the world economy. This is borne out by trade missions abroad, during which the strengths of Montréal and Québec City—our large centres of development—are the prime interest of our hosts.

Large cities will benefit from the new financial partnership we have just concluded with the municipalities. However, we are going to do more by meeting a pressing demand of Montréal and the national capital.

I am announcing that the government will pay, as of January 2007, the full amount of the property taxes of museums, the Grande Bibliothèque and the Grand Théâtre de Québec. This measure will result in nearly \$8 million in additional revenue for these cities.

Montréal

A number of measures announced in this budget will be of great benefit to Montréal. Mr. President, allow me to cite a few of them:

- major investments in public transit;
- refitting of Montréal's metro system;
- financial support for bids to host major sporting events; and lastly
- the tax credit granted to employers who hire new graduates in the field of derivatives, the specialty on the Montréal Exchange.

Québec City

In addition, we are meeting a longstanding need expressed by municipal officials in Québec: a first-class airport for the national capital.

In addition to financing maintenance facilities for the Réseau de transport de la Capitale, I am announcing that we will also participate in funding the modernization of the Québec City airport.

This will enable our capital to have infrastructures in line with its role, status and international visibility. This investment is fundamental not only for Québec City's economic growth, but also for welcoming the thousands of people who will come for its 400th anniversary celebrations.

\$1.7 billion more for municipalities

In short, Mr. President, with this budget, the government is unequivocally making the inhabitants of the municipalities a priority. Just with the measures announced today, municipalities will receive almost \$1.7 billion more in the next five years, without taking into account the new financial partnership.

Section IV – Ensuring inter-generational equity

Mr. President, in the past three years, we have practised responsible, rigorous management in order to put Québec on the road to prosperity.

We did so for the present generation, but also for future generations.

Our budgetary discipline was demanding, but it was also profitable, because today it enables us to continue our efforts while maintaining a balanced budget and giving ourselves the means to reduce the debt burden.

Reaping the rewards of budgetary discipline

During the period covered by the last three budgets, we stringently managed our finances to limit spending growth to an annual average of 3.7%. It is a remarkable performance.

In comparison, average federal spending rose twice as fast—7% a year over the same period.

Annual spending growth for the provinces as a whole was 6.4%.

Allow me, Mr. President, to pay tribute to my colleague at the Conseil du trésor for this unflagging budgetary discipline.

Québec's performance is all the more remarkable in that, even though we controlled spending, we were able to deliver on our commitment to prioritize health, education, the reduction of Quebecers' tax burden and the modernization of the State and our infrastructure.

**Over \$4.7 billion for
infrastructure**

Again this year, over \$4.7 billion will be dedicated to infrastructure—an unparalleled amount—including \$1.6 billion for the maintenance of assets. We thereby avoid any future unforeseen costs and ensure our infrastructure remains in good condition.

In addition, to preserve the integrity of the tax system and ensure that everyone contributes fairly to funding public services, we are continuing to fight tax evasion. Efforts to date have yielded tangible results. We will continue our action.

Mr. President, I am announcing that our strict management and Québec's strong economic performance will result in another balanced budget in 2006-2007.

We will also maintain a balanced budget in 2007-2008. To do so, however, this government must continue to practise disciplined management and limit spending growth to 3.1%.

The Generations Fund

Our budgetary discipline has enabled us to make great strides in restoring order to public finances. We can now take up the challenge of reducing the debt burden with even more determination.

In recent years, most Western countries and Canadian provinces have been seeking ways to reduce their debt.

In fact, the Forum des générations, held in October 2004, marked a turning point. Demographic and public finance challenges were the subject of lively discussion that showed the public to be increasingly aware of the importance of reducing the debt burden.

Québec's debt is indeed still too high. As at March 31, it will have reached \$118.2 billion.

Our debt represents almost 43% of our gross domestic product. This is nearly double the Canadian average.

Such a high level of debt would be justified had it essentially served to fund capital assets or cost-effective investments in government corporations with an economic mission.

But this was not the case.

Nearly three quarters of Québec's debt is attributable to current-expenditure funding in the last 30 years.

Thus, there is still a large debt today and, if no action is taken, the next generations will pay the price. Reducing the debt burden is also essential to successfully coping with population aging and protecting ourselves from fluctuating interest rates.

In my last budget speech, I already announced the government's determination to reduce the debt burden to less than 40% of gross domestic product by the end of the decade. In actual fact, we will do so sooner.

Pre-budget consultations showed:

- a broad consensus for further action;
- the need to entrench debt burden reduction in a law that ensures the anticipated results will be obtained, as well as the sustainability of the process.

Reducing the debt to less than 25% of GDP by 2025

In this context, to meet the challenge of restoring inter-generational equity and achieving greater prosperity, the government has chosen to set a demanding target: reduce the debt to less than 25% of GDP by 2025.

Creation of the Generations Fund

To attain that target, we are going to create the Generations Fund, as announced by the Premier in his inaugural address.

This new fund is our response to Quebecers who are concerned about our debt.

Thus, the Generations Fund is meant to be a concrete, visible tool for measuring our progress toward debt reduction.

The Fund will be created by a law, and its administration will be entrusted to the Caisse de dépôt et placement du Québec, which will see that the Fund grows in the best interest of Quebecers.

In fact, this approach has proven itself in the case of the sinking fund for public and parapublic sector employee pension plans, whose assets today stand at over \$22 billion.

Capitalizing on responsible water use

The Generations Fund cannot be financed by increasing current taxes.

That would ultimately be contrary to our commitments.

Debt reduction must not take the form of a new sacrifice, but rather that of a new benefit.

From this standpoint, a revenue source struck us as appropriate, being that it is tied to a renewable natural resource that Québec has in abundance: water.

I am announcing that, as of January 1, 2007, Hydro-Québec will gradually be subject to the water-power royalties that are provided for in the *Watercourses Act* and that already apply to private electricity producers.

Hydro-Québec will be invited to absorb the cost of the royalties chiefly through efficiency gains and by increasing export earnings. If necessary, the government is prepared to adjust over time Hydro-Québec's anticipated results.

In addition, I am announcing that, as of January 1, 2007, the water-power royalties already collected by the government from private producers of hydro-electricity will be gradually paid into the Generations Fund.

Revenues of at least \$600 million a year will thus be paid into the Fund.

We also intend to allocate to the Fund a portion of the profits from surplus electricity sales on foreign markets generated by the planned increase in Hydro-Québec's production capacity.

Mr. President, we will continue the work already undertaken on the terms and conditions relative to introducing a royalty on harnessing water.

A law will have to be passed in that regard in order to ensure that the State is the sole owner of water in Québec.

The revenue sources mentioned will not only contribute to the Generations Fund, but will also promote more responsible water use. That is sustainable development.

Other revenues, such as proceeds from the sale of certain non-strategic government assets, may augment the Generations Fund.

A demanding target

We are moving forward. We are setting the responsible goal of reducing the debt to less than 25% of GDP by 2025. As shown in the table I am presenting, the debt burden in the economy will be reduced to virtually the current average of Canada's provinces through the Generations Fund, which, by then, will total almost \$30 billion solely in water-power royalties.

The creation of the Generations Fund will have a tangible positive impact on public finances and the Québec economy. Consequently, the Québec of tomorrow will be less in debt, less vulnerable to rising interest rates, better equipped to cope with demographic change and, especially, more prosperous.

With the creation of the Generations Fund, the government is entering a new stage in redressing public finances.

This approach, a first in our history, is intended to reflect Quebecers' desire to preserve the level and quality of public services and ensure their sustainability for the good of our children.

Mr. President, the Generations Fund is an appeal to Quebecers for true solidarity with future generations.

Section V – Fiscal imbalance: strengthening the equalization program

Our budgetary discipline shows that our government is fully assuming its responsibilities with respect to not only the present, but the future as well. This same sense of responsibility guides our relations with our partners and the federal government.

Québec played a leading role in turning fiscal imbalance and equalization into pan-Canadian issues. Two committees are currently examining these issues:

- a committee set up by the Council of the Federation is studying the matter of fiscal imbalance;
- a committee formed by the federal government is concentrating on the equalization program.

Equalization: a key issue for Québec

For Québec, it is essential that the method for calculating equalization payments be adjusted to ensure that the beneficiary provinces have the same per capita fiscal capacity.

- We advocate an approach in which the calculation method is based on the average fiscal capacity of the 10 provinces and takes into account all of their revenue sources. We will thus be reverting to the original purpose of the equalization program.

As for the other issues, such as daycare, funding for post-secondary education and social assistance, and climate change, we are confident that we will find common ground with the new federal government.

In fact, the Prime Minister of Canada has stated on more than one occasion that he intends to reach with the provinces “a long-term, comprehensive agreement, addressing [. . .] fiscal imbalance”. He has already announced his intention to submit proposals for talks and negotiations as of this year. This openness is encouraging.

I can assure you that, under the Premier of Québec's leadership, we will continue the negotiations underway with the federal government in the interest of all Quebecers.

Section VI – Modernizing governance

Mr. President, I would now like to touch on a matter of particular importance to me.

As the manager of public funds, we have great responsibilities toward our compatriots. We must ensure stringent, transparent management.

Review the governance of government corporations

Government corporations manage a large share of our collective heritage. The administrators of these corporations must meet strict, rigorous governance criteria.

Certain government corporations have gone through difficult periods, due in part to rules of governance that are no longer adequate. Accordingly, our government pledged to review the governance of its corporations.

We took action as soon as we came to power, by making changes to the internal management guidelines and policies of the Société générale de financement du Québec and Investissement Québec. In the fall of 2004, the *Act respecting the Caisse de dépôt et placement du Québec* was amended and updated.

The Caisse de dépôt et placement du Québec is now in the first quartile of Canadian managers, due to its performance. This is proof positive that the effort made is paying off.

Renewed governance

In the coming days, I will table a policy statement to modernize the governance of government corporations.

The policy statement will enable us to move toward improved governance. Concretely, this will mean a number of things, in particular that:

- the positions of chair of the board of directors and of president and chief executive officer will henceforward be separate;
- changes will be made to the mandate of boards of directors, and reporting by government corporations will be strengthened;
- additional responsibilities will be entrusted to the Auditor General, such as joint auditing of certain government corporations with the private sector;
- the constituting acts of government corporations will be systematically reviewed every 10 years.

The government's objective is to promote management that meets rigorous criteria of:

- transparency;
- integrity;
- responsibility.

At the end of this process, Québec government corporations will have a governance framework built on the most exacting standards.

Greater transparency in public finances

In 2003, we made a commitment to greater transparency so that Quebecers would be better able to evaluate the government's financial position.

Transparency is central to the government's democratic values. It requires the timely disclosure of financial information.

Initiatives for greater transparency

We have already taken steps toward greater budgetary transparency.

- In 2003-2004, a new appendix presenting the annual and cumulative surpluses and deficits of the education and health and social services networks was added to the Public Accounts.
- The 2004-2005 Public Accounts introduced a new section on financial analysis and financial indicators.
- Since 2005-2006, federal transfer revenues have been recorded on an accrual basis rather than on a cash basis.
- The method of calculating the provision for losses on guaranteed financial initiatives was improved.
- The Generations Fund will ensure greater transparency regarding debt retirement efforts.

Mr. President, as of this year we will take steps to improve reporting, clarify the financial information presented and release it more frequently.

A new monthly financial report

As of 2006-2007, the government will innovate by publishing a monthly report that can be used to monitor changes in the financial position.

Québec will be the first province to publish information on its financial activities with such frequency.

To round out the information provided, each fall the government will publish a report on Québec's economic and financial position, as well as a report on tax expenditures.

All of these initiatives will contribute to substantially improving government transparency with regard to public finances.

Conclusion – Do better for the future of Québec

Mr. President:

In the budget I have just tabled, we are meeting today's needs while strengthening our ability to meet tomorrow's challenges. This budget is predicated on the principle of sustainable development applied to public finances—a principle that drives every action of our Premier.

It is a budget marked by responsibility and trust, a budget that commits us, as never before, to future generations. It is a budget that recognizes the aspirations of Quebecers.

It is a budget:

- for all Quebecers who, like us, believe that guaranteeing access to care will enable us to build one of the best health systems in the world;
- for our students who want to develop their full potential and aspire to promising careers;
- for parents who want better balance between their family and professional responsibilities;
- for our young people who are looking for a springboard to realizing their dreams and ambitions;
- for all those who believe that it is possible to marry economic growth with sustainable development;
- for municipalities and inhabitants of the regions that want to take charge of their development;
- for all those who demand more discipline and transparency from their institutions;
- for a majority of Quebecers who want to be part of a Canada willing to acknowledge differences;
- for those who agree to fully assume their responsibilities with respect to future generations.

I am proud to table today a budget that has a vision, a budget that reflects our determination to do better for the future of Québec.

In short, a budget that outlines the road to a better, more responsible Québec heading toward greater prosperity.

GOUVERNEMENT DU QUÉBEC
SUMMARY OF CONSOLIDATED FINANCIAL TRANSACTIONS
2005-2006 FISCAL YEAR
(millions of dollars)

	April 21, 2005 Budget Speech	Preliminary results
Budgetary transactions of the Consolidated Revenue Fund		
Own-source revenue	45 528	45 476
Federal transfers	9 607	9 972
Total revenue	55 135	55 448
Program spending	- 48 407	- 48 940
Debt service	- 6 995	- 6 849
Total expenditure	- 55 402	- 55 789
Net results of consolidated organizations	267	341
Consolidated budgetary balance	0	0
Consolidated non-budgetary transactions		
Investments, loans and advances	- 1 517	- 1 345
Capital expenditures	- 1 242	- 1 247
Retirement plans	2 016	2 174
Other accounts	309	- 218
Non-budgetary requirements	- 434	- 636
Net financial requirements	- 434	- 636
Consolidated financing transactions		
Change in cash position	2 661	197
Change in direct debt ¹	- 1 072	4 652
Retirement plans sinking fund	- 1 155	- 4 213
Total financing of transactions	434	636

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing. For the change in cash position, a negative entry indicates an increase and a positive entry, a decrease.

1 The preliminary results for 2005-2006 take into account borrowings of \$2 590 million made in advance.

GOUVERNEMENT DU QUÉBEC
SUMMARY OF CONSOLIDATED FINANCIAL TRANSACTIONS
2006-2007 FORECAST
(millions of dollars)

Budgetary transactions of the Consolidated Revenue Fund	
Own-source revenue	47 105
Federal transfers	10 796
Total revenue	57 901
Program spending	- 50 873
Debt service	- 7 205
Total expenditure	- 58 078
Net results of consolidated organizations	177
Budgetary balance for the purposes of the <i>Balanced Budget Act</i>	0
Net results of the Generations Fund	74
Consolidated budgetary balance	74
Non-budgetary requirements	- 569
Net financial requirements	- 495
Consolidated financing transactions	
Change in cash position	2 516
Change in direct debt	966
Retirement plans sinking fund	- 2 987
Total financing of transactions	495

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing

GOUVERNEMENT DU QUÉBEC
BUDGETARY REVENUE OF THE CONSOLIDATED REVENUE FUND
2006-2007 FORECAST
(millions of dollars)

Own-source revenue	
Income and property taxes	
Personal income tax	17 309
Health Services Fund	5 331
Corporate taxes ¹	4 349
	26 989
Consumption taxes	
Retail sales	10 108
Fuel	1 717
Tobacco	852
Alcoholic beverages	431
	13 108
Duties and permits	
Motor vehicles	745
Natural resources	60
Other	164
	969
Miscellaneous	
Sales of goods and services	396
Interest	424
Fines, forfeitures and recoveries	461
	1 281
Revenue from government enterprises	
Hydro-Québec	2 500
Loto-Québec	1 524
Société des alcools du Québec	702
Other	32
	4 758
Total own-source revenue	47 105
Federal transfers	
Equalization	5 354
Health transfers	3 605
Transfers for postsecondary education and other social programs	1 041
Other programs	796
Total federal transfers	10 796
Total budgetary revenue	57 901

¹ Includes tax on corporate profits, tax on capital and tax on premiums in lieu of the tax on capital for insurance companies, as well as the tax on public services.

GOUVERNEMENT DU QUÉBEC
NON-BUDGETARY TRANSACTIONS
2006-2007 FORECAST
(millions of dollars)

Investments, loans and advances	
Consolidated Revenue Fund	- 1 497
Consolidated organizations	2
Total investments, loans and advances	- 1 495
Capital expenditures	
Consolidated Revenue Fund	
Net investments	- 304
Depreciation	226
	- 78
Consolidated organizations	- 1 171
Total capital expenditures	- 1 249
Retirement plans	
Contributions	5 947
Benefits and other payments	- 3 690
Total retirement plans	2 257
Other accounts	
Consolidated Revenue Fund	- 5
Consolidated organizations	- 77
Total other accounts	- 82
Total non-budgetary transactions	- 569

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing.

GOUVERNEMENT DU QUÉBEC
FINANCING TRANSACTIONS
2006-2007 FORECAST
(millions of dollars)

Change in cash position

Consolidated Revenue Fund	2 590
Consolidated organizations	—
Generations Fund	– 74

Total change in cash position **2 516**

Change in direct debt

Consolidated Revenue Fund	
New borrowings	4 702
Repayment of borrowings	– 4 805
	– 103

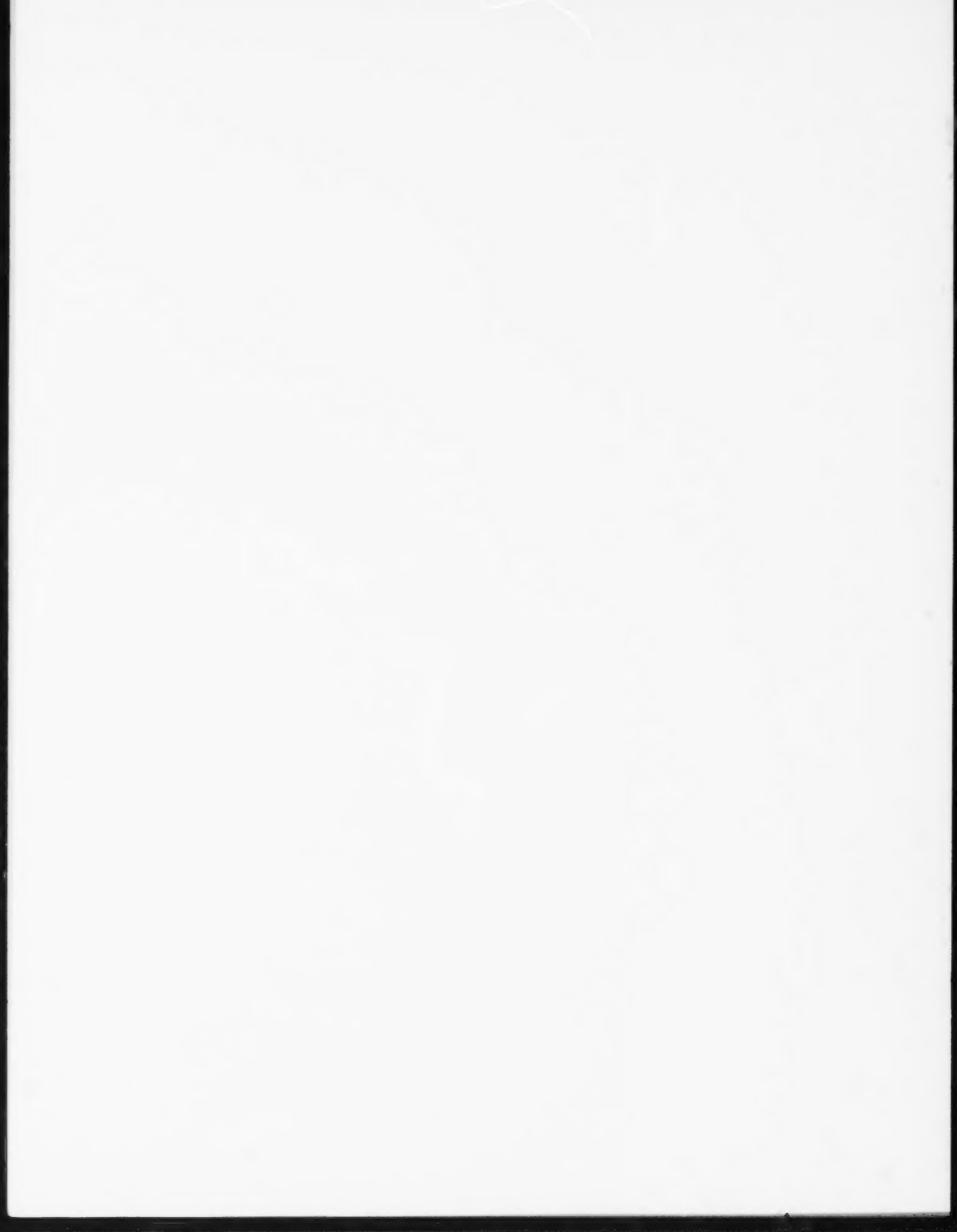
Consolidated organizations	
New borrowings	1 527
Repayment of borrowings	– 458
	1 069

Total change in direct debt **966**

Retirement plans sinking fund **– 2 987**

Total financing of transactions **495**

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing. For the change in cash position, a negative entry indicates an increase and a positive entry, a decrease.



Finances

Québec

